

MENU OF POLICY OPTIONS FOR DIGITAL FINANCIAL LITERACY AND FINANCIAL CONSUMER AND MSME PROTECTION

Enhancing digital financial inclusion beyond the COVID-19 crisis





Her Majesty Queen Máxima of the Netherlands, UN Secretary-General's Special Advocate for Inclusive Finance for Development and Honorary Patron of the G20 GPFI

As the recovery from COVID-19 continues, now is the time to take stock, to build back stronger, more inclusively, and learn for our collective policy responses. This particularly matters to vulnerable and underserved groups, including women, informal workers, rural dwellers, and smaller businesses, who already had limited access to the digital economy and financial services prior to this pandemic. These groups have disproportionately felt the lingering economic impacts from the COVID-19 crisis.

Previous efforts to build digital public goods, such as foundational ID systems, connectivity, interoperable payments infrastructure, consumer protection policies, and digital and financial literacy, have demonstrated their worth. These have enabled the rapid roll out of digital financial services and supported a shift to online payments for goods and services.

We now have a unique opportunity to build on the increase in digitization and support vulnerable segments to truly benefit from

digital financial services. Not for innovation's sake, but to enable transformative opportunities to improve the quality of lives and lead to positive development outcomes.

Yet, challenges need to be addressed. Digital risks from fraud, cybercrime and identify theft need to be mitigated. We must be vigilant that increased digitization does not exacerbate the digital divide and other inequalities, but instead addresses them. Digital financial literacy as well as financial consumers and MSME protection policies will be key components to this.

Building upon our past work and recent experiences, the GPFI has developed a strong menu of policy options to help set a course to a new, more digital, and inclusive financial normal, which addresses the digital risks to consumers and small businesses.

As the Honorary Patron of the G20 GPFI, I congratulate the Italian G20 Presidency and the GPFI under its co-chairs for this quality output. COVID-19 has reinforced our understanding of the necessity and urgency of the policies and investments that are needed to build trust in a responsive and safe digital financial system. We also see the imperative of embedding financial literacy and consumer protection in the way products are designed and delivered.

Looking forward, these options need to drive action to help us recover and build a more inclusive and responsible digital financial system. I hope governments, businesses, and development champions will make use of this helpful resource as we focus our efforts to improve the digital financial capabilities and protections for consumers and small businesses.

Acknowledgments

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It builds on the reports produced for the G20 GPFI under the Italian G20 presidency:

- ‘MSME Digital Finance: Resilience and Innovation during COVID-19’ by the International Finance Corporation (IFC) and the SME Finance Forum;
- ‘Supporting Financial Resilience and Transformation through Digital Financial Literacy’ by the OECD;
- ‘Lessons Learnt and Effective Approaches to Protect Consumers and Support Financial Inclusion in the Context of COVID-19’ by the OECD;
- ‘The Impact of COVID-19 on Digital Financial Inclusion’ by the World Bank.

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ENHANCING DIGITAL FINANCIAL INCLUSION BEYOND THE COVID-19 CRISIS



Introduction

The economic and social impact of the COVID-19 pandemic is profound. Sparing no country, the pandemic has also affected the access, use and quality of financial products and services for individuals and micro, small and medium-sized enterprises (MSMEs).

The pandemic has increased the vulnerability of particular segments of society, including women, youth, the elderly, informal workers, forcibly displaced people and those living in remote rural areas, as well as smaller firms. Government financial support programs implemented in many countries have been of great help in assisting households and firms. However, some groups have been disproportionately hit (such as women) or particularly hard to reach (such as forcibly displaced people). For many, the ability to repay outstanding personal or business loans may have decreased. These challenges appear to be particularly daunting in emerging markets and developing economies.

Digitalisation has helped contain the impact of the pandemic especially where key enablers are in place, such as accessibility to digital infrastructures, connectivity, digital skills and financial consumer protection. Digital tools and digital financial products and services have been offered to connect vulnerable and underserved groups. Governments have embraced digital channels to deliver faster and more secure COVID-19 relief payments. Regulators have striven to increase the uptake of digital payments by encouraging financial service providers to reduce fees and frictions. Notwithstanding the benefits of digitalisation, a number of challenges need to be addressed, such as increased exposure to digital risks (e.g. account takeover fraud and identity theft) and financial exclusion for those with low digital skills or reduced access to digital infrastructures.

Under the Italian G20 Presidency, the GPFI took stock of countries' strategies to tackle the challenges and seize the opportunities for financial inclusion posed by the pandemic. In line with the objectives of the G20 [2020 Financial Inclusion Action Plan](#), and building upon the far-reaching work done during past G20 Presidencies¹, GPFI implementing partners have produced four reports², which present policy responses and innovative approaches that have proved effective in mitigating the impact of the crisis and could guide policymakers in designing the recovery phase with a view to the future.

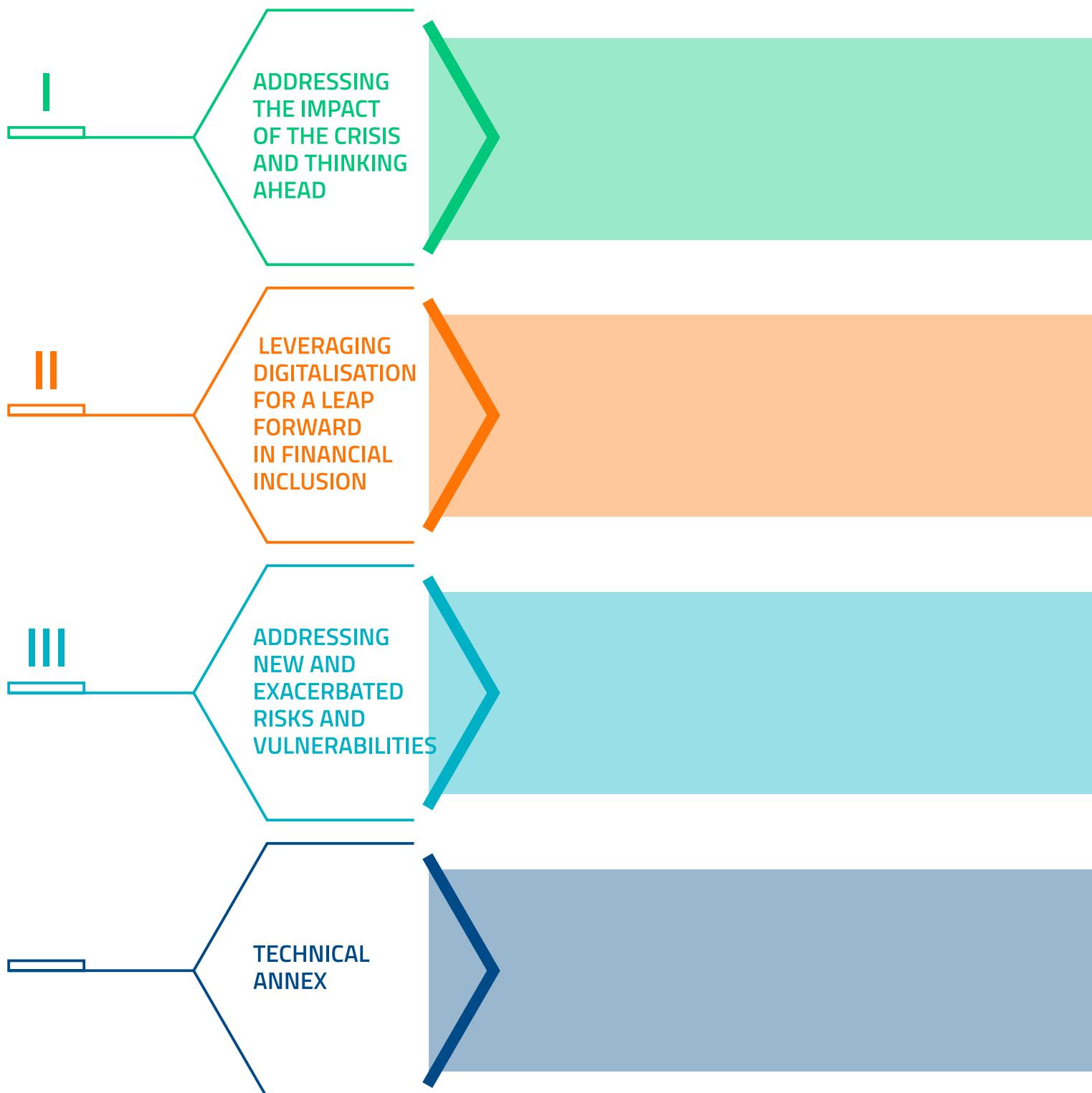
Drawing from this extensive work, this note presents a menu of policy options drawn from country-level good practices from across the world. While recognizing that digital financial inclusion is critically dependent on several enabling factors, this menu focuses only on two of them: **digital financial education and financial consumer and MSME protection.** In trying to assist countries in their effort to lay the ground for a more inclusive 'new financial normal', policy options are grouped into three areas:

- (I) addressing the impact of the crisis and thinking ahead;
- (II) leveraging digitalisation for a leap forward in financial inclusion;
- (III) addressing new and exacerbated risks and vulnerabilities.

The policy options reflect as much as possible the diversity of the social and policy environment across countries; some options, however, could require capabilities that may not be equally available in all countries.

¹ Specifically, the G20/OECD High-Level Principles on Financial Consumer Protection (to be reviewed in 2022) and the OECD Recommendation on Financial Literacy.

² MSME Digital Finance: Resilience and Innovation during COVID-19' by the International Finance Corporation (IFC) and the SME Finance Forum; 'Supporting Financial Resilience and Transformation through Digital Financial Literacy' by the OECD; 'Lessons Learnt and Effective Approaches to Protect Consumers and Support Financial Inclusion in the Context of COVID-19' by the OECD; 'The Impact of COVID-19 on Digital Financial Inclusion' by the World Bank.



I. ADDRESSING THE IMPACT OF THE CRISIS AND THINKING AHEAD



KEY POLICY OPTIONS INCLUDE:

- 1** Supporting individuals and MSMEs by incorporating appropriate hardship arrangements into financial consumer and MSME protection frameworks
- 2** Widening the range of responsible financial instruments available to vulnerable and underserved individuals and MSMEs
- 3** Taking advantage of the momentum to increase financial literacy
- 4** Adopting a coordinated multi-stakeholder approach to strengthen financial inclusion

1 Supporting individuals and MSMEs by incorporating appropriate hardship arrangements into financial consumer and MSME protection frameworks

- Financial hardship arrangements (i.e. direct and indirect government financial support programs) for both individuals and MSMEs in financial distress have been a key element of the policy response to the COVID-19 pandemic. Immediate relief measures have proven most effective when designed with a longer-term recovery in mind.
 - Policymakers may consider incorporating appropriate and forward looking hardship arrangements for financial consumers and MSMEs into financial protection frameworks.
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2 Widening the range of responsible financial instruments available to vulnerable and underserved individuals and MSMEs

- In addition to traditional measures to promote access to credit, some authorities and private institutions have adopted innovative ways to help vulnerable individuals and MSMEs cope with the impact of the crisis.
 - Policymakers may consider designing or further developing policies and frameworks that can encourage the supply and use of a wider range of responsible financial instruments to appropriately meet users' needs (including those aimed at bridging protection gaps, such as insurance). These actions would need to be accompanied by appropriate frameworks of financial consumer and MSME protection as well as by financial education initiatives to raise the awareness of consumers and MSMEs to support better informed financial decisions.
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3 Taking advantage of the momentum to increase financial literacy

- The COVID-19 shock caused individuals and MSMEs to seek financial information. Financial education programs have been rapidly adapted for digital delivery to the general population and to vulnerable groups. This allows governments to provide information and reliable guidance on support and relief measures.
 - The crisis has also been used as a 'teachable moment' to attract consumers and MSME-owners towards reliable financial education resources and to encourage them to acquire greater financial knowledge. Policymakers may consider improving the design and the delivery of digital financial education programs, including for the most vulnerable segments, addressing specific challenges for the groups being targeted.
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4 Adopting a coordinated multi-stakeholder approach to strengthen financial inclusion

- Coordination among different regulators (and supervisors) and between regulators (and supervisors) and other stakeholders has proved critical in strengthening financial inclusion during the pandemic and in addressing issues and bottlenecks.
- Policymakers may consider involving private and not-for-profit stakeholders – including, for instance, consumers', women's, migrants' and MSMEs' organizations – to bring additional expertise to the table in the implementation of digital financial education programs for vulnerable audiences and the strengthening of financial protection frameworks.

II. LEVERAGING DIGITALISATION FOR A LEAP FORWARD IN FINANCIAL INCLUSION



KEY POLICY OPTIONS INCLUDE:

- 1** Favouring 'protection by design' for new digital financial products and services
- 2** Supporting inclusive financial innovation by embedding financial inclusion objectives in innovation policies
- 3** Deploying data collection and enhancing market monitoring to improve financial services
- 4** Using behavioural insights to improve financial consumer and MSME protection and financial education
- 5** Designing inclusive digital financial information and education

① Favouring ‘protection by design’ for new digital financial products and services

- The pandemic has encouraged the development of digital financial products and services that are more accessible to the underserved. Policymakers in many jurisdictions have implemented or are developing product governance regulations or practices to ensure that new financial products support financial inclusion and, ultimately, the financial well being of both individuals and MSMEs.
 - Policymakers may consider favouring ‘protection by design’ policies, which encourage an inclusive and responsible approach to the design of new digital financial products and services more oriented to the needs of individuals and MSMEs, that would help prevent aggressive and unfair market practices and ensure the legitimate use of customer data.
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② Supporting inclusive financial innovation by embedding financial inclusion and protection objectives in innovation policies

- In the last decade, many countries have established regulatory sandboxes and innovation hubs to support the development of innovative products and to foster dialogue between innovators and regulators. The adoption of digital technologies and the activities of new technology-driven market players can help address the unmet demand for financial services (i.e. payments, including remittances, saving, lending, insurance, non-debt financing instruments), making it cheaper and easier to access finance and to manage risks. However, to meet this end, it is essential that innovative solutions are affordable, secure, interoperable, transparent, inclusive, and properly regulated.
 - To ensure that innovation benefits underserved groups and does not generate unnecessary risks, policymakers may consider embedding financial inclusion and financial consumer and MSME protection objectives in their financial innovation policies and strategies.
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③ Deploying data collection and enhancing market monitoring to improve financial services

- Digital tools offer great opportunities to collect data that can be used to monitor market conduct and financial education programs (also evaluating their impact), while ensuring financial consumer and MSME protection, including data privacy.
 - Drawing from multiple sources of data, policymakers may consider enhancing such monitoring to keep themselves apprised of any new market developments, effectively and rapidly identifying problems in the market and better tailoring financial consumer and MSME protection and financial education interventions. The availability and accuracy of disaggregated data collection (e.g. gender-disaggregated data) is an important starting point for identifying gaps and monitoring the effectiveness of policies and programs.
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④ Using behavioural insights to improve financial consumer and MSME protection and financial education

- Behavioural insights are valuable to understand how financial consumers and MSMEs make financial decisions, and respond to policies and incentives. When designing financial consumer and MSME protection regulation, policymakers may draw from these insights and employ tools that have proven effective including, among others, choice architecture, framing, and the use of default options.
- Policymakers may consider leveraging digital financial education tools that apply lessons from behavioural insights to promote ‘financially resilient’ behaviours for both individuals and MSMEs.

5 Designing inclusive digital financial information and education

- Several countries are using digital tools to provide timely financial information and education to build the skills of those at risk of financial vulnerability. Such tools may be tuned to the preferences, needs and situations of different target groups, including women, youth, the elderly, informal workers, forcibly displaced people, and those living in remote rural areas, as well as smaller firms. The choice of tools should take into account local and national circumstances and the financial literacy and digital skills of end-users, as well as their level of financial vulnerability.
- Given the limited digital readiness of some groups, policymakers should consider reaching target populations through digital financial education programs without exacerbating digital exclusion by complementing digital initiatives with more traditional tools.

III. ADDRESSING NEW AND EXACERBATED RISKS AND VULNERABILITIES



KEY POLICY OPTIONS INCLUDE:

- 1** Stepping up efforts to identify groups at risk of financial exclusion
- 2** Addressing risks of online fraud and scams and mismanagement of personal data
- 3** Introducing and strengthening effective redress mechanisms to protect consumers and MSMEs
- 4** Enhancing the use of digital tools to assist public authorities in favouring inclusion and protection



1 Stepping up efforts to identify groups at risk of financial exclusion

- Several jurisdictions developed surveys and studies to understand the impact of the COVID-19 crisis on resilience and well-being, with a particular focus on the most vulnerable groups.
 - A better understanding and use of this data has the potential to improve the financial inclusion of individuals and MSMEs and to identify new and exacerbated risks and vulnerabilities. Additionally, integrated databases across multiple sources may enable targeting resources to those who are the most vulnerable and hardest to reach.
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2 Addressing risks of online fraud and scams and mismanagement of personal data

- Online financial fraud and scams and the mismanagement of personal data, associated with increased digitalisation, represent serious threats to financial well-being and actual inclusion. Frauds and scams and data mismanagement merit close monitoring by regulators, supervisors and law enforcement agencies and require effective policy responses, including appropriate sanctions.
 - As part of financial education and information strategies, policymakers may consider adopting policies to raise awareness on the part of financial consumers and MSMEs, especially the most vulnerable ones, about the potential risks of digital financial products and services, and basic elements of safety. Policies to improve the ability to recognize instances of online fraud and scams and policies to raise awareness that some products may be unregulated, should also be considered.
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3 Introducing and strengthening effective redress mechanisms to protect financial consumers and MSMEs

- The pandemic has highlighted the importance of appropriate complaints handling and redress mechanisms to effectively protect financial customers, especially the most vulnerable ones, who need to file a complaint towards a financial services provider also as a consequence of increasing cases of fraud and scams. Technology can facilitate the design of effective redress mechanisms that are more affordable and widely available to individuals and MSMEs.
 - Policymakers may consider strengthening redress mechanisms, or introducing them where they do not already exist, to boost financial consumer and MSME confidence in financial products and services, also by addressing the risks of frauds and scams and other challenges posed by the increasing complexity of the financial landscape in the digital era.
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4 Enhancing the use of digital tools to assist public authorities in favouring inclusion and protection

- SupTech strategies expand the use of digital tools to assist public authorities. Several of them have changed or are reviewing their policies with regard to the use of digital tools also in light of the COVID-19 pandemic.
- Authorities may consider adopting - or updating - their SupTech strategies to improve the effectiveness and speed of responsiveness, which ultimately benefits customers.

TECHNICAL ANNEX



Addressing the impact of the crisis and thinking ahead

Examples of good practices	References to Implementing Partners' Reports
Supporting individuals and MSMEs by incorporating appropriate hardship arrangements into financial consumer and MSME protection frameworks.	<p>Financial hardship arrangements activated during the crisis, mostly temporary, include: restructuring of repayment terms; credit moratoriums; enhanced disclosure and providing extra information; discounted or refunded insurance premiums; emergency access to funds; expanded use of pensions as collateral; deferral or reduction in pension contributions.</p> <p>Hardship arrangements that may be incorporated in a forward-looking approach include: expanding the use of remote on-boarding, e-signatures, digital IDs and increasing electronic payment transaction limits.</p>
Widening the range of responsible financial instruments available to vulnerable and underserved individuals and MSMEs.	<p>For instance, during COVID 19: digital accounts were created for segments of population excluded from the financial system, that made it possible for them to receive social assistance disbursements; non-bank digital financial service providers were involved in public relief programs; non-debt financing instruments were developed to help MSMEs meet their capital needs (such as special vehicles to access equity funding).</p>
Taking advantage of the momentum to increase financial literacy.	<p>For instance, many countries have combined COVID 19 relief measures' information and tools with specific awareness campaigns to support the access and safe use of digital financial instruments for both individuals and MSMEs.</p>
Adopting a coordinated multi-stakeholder approach to strengthen financial inclusion.	<p>For instance, task forces and expert councils have been particularly useful during the crisis to foster collaboration and dialogue among different stakeholders and to implement national strategies/approaches to address the needs of the vulnerable and underserved.</p>

Leveraging digitalisation for a leap forward in financial inclusion

	Examples of good practices	References to Implementing Partners' Reports
Favouring 'protection by design' for new digital financial products and services.		
Supporting inclusive financial innovation by embedding financial inclusion objectives in innovation policies.	<p>Effective approaches include: product governance; the development of regulatory sandboxes and innovation hubs with the specific objective of promoting an inclusive approach in the design of financial products and services; the promotion of boot camps and digital hackathons – also engaging non-financial businesses owned by underserved groups – to improve the design and use of innovative non-debt financing instruments that may improve MSMEs' financial structure.</p>	<p>G20/OECD High-Level Principles on Financial Consumer Protection. G20/OECD Report 'Lessons Learnt and Effective Approaches to Protect Consumers and Support Financial Inclusion in the Context of COVID-19'. G20/IFC/SMEFF Report 'MSME Digital Finance: Resilience and Innovation during COVID-19'.</p>
Deploying data collection and enhancing market monitoring to improve financial services.	<p>A range of data sources have supported regulators and supervisors during the crisis. These include: complaints data, user enquiries, social media and surveys of financial services providers. Several authorities set up collaborative work tools, digital platforms for financial institutions and financial customers to submit data and complaints. Several authorities implemented web scraping, social listening and new tools to monitor financial advertisements and detect fraudulent financial offerings online.</p>	<p>G20/OECD Report 'Lessons Learnt and Effective Approaches to Protect Consumers and Support Financial Inclusion in the Context of COVID-19'.</p>
Using behavioural insights in financial consumer and MSME protection and financial education.	<p>Effective approaches include: targeted digital campaigns promoting the use of personal goal-setting features and feedback mechanisms to help people save for retirement or reach other saving goals; the use of personalised reminders and messages to help people to build up savings or pay back a loan or renew an insurance policy; the deployment of just-in-time information and comparison tools to help people take better and more considered spending, credit, payments and risk management decisions; the development of educational activities to foster behaviour change via experiential learning.</p>	<p>G20/OECD INFE Report 'Supporting Financial Resilience and Transformation through Digital Financial Literacy'. G20/OECD Report 'Lessons Learnt and Effective Approaches to Protect Consumers and Support Financial Inclusion in the Context of COVID-19'.</p>
Designing inclusive digital financial information and education.	<p>Examples include: targeted digital campaigns, info-graphic guides and consumer awareness sessions. Partnerships with local established stakeholders linked to vulnerable and excluded groups could also be helpful. The production of innovative and customized tools could be encouraged through digital hackathons or competitions for financial education. Digital exclusion could be avoided by: resorting to simple forms of technology, such as instant messaging apps; developing hybrid delivery modes where facilitators and trainers help the end-users to interact with digital tools and transfer their digital skills; complementing digital financial education initiatives with traditional media, such as TV and radio. The formal introduction of financial competencies in the school curricula could be a very important step in building financial skills building financial skills which have not been taught at home.</p>	<p>G20/OECD INFE Report on 'Supporting Financial Resilience and Transformation through Digital Financial Literacy'.</p>

Addressing the impact of the crisis and thinking ahead

Examples of good practices	References to Implementing Partners' Reports
Stepping up efforts to identify groups at risk of financial exclusion.	In some cases, the exchange of on-line data on MSMEs between key stakeholders (e.g. relevant public authorities, credit guarantee funds) helped lenders to better assess MSME candidates to qualify for a financial aid program.
Addressing risks of online fraud and scams and mismanagement of personal data.	Effective approaches include: awareness campaigns, issuing specific warnings (with details about frequent types of new and old forms of scams and how financial consumers and MSMEs can identify them); sharing lists of unauthorised or banned entities; establishing multi-stakeholder task forces, shutting down or blocking access to malicious websites, monitoring and analysing data on unauthorised transactions and strengthening authentication and security obligations for providers of financial and payment services, developing anti-fraud and AI-screening approaches that do not exacerbate financial exclusion.
Introducing and strengthening effective handling and redress mechanisms to protect financial consumers and MSMEs. Enhancing the use of digital tools to assist public authorities in favouring inclusion and protection.	The strategy may include: online reporting systems, tracking and analysing complaints to identify unfair market conduct, collecting and analysing unstructured data, advertisement monitoring, reviewing contracts, implementing systems to allow for simultaneous remote inspections and automatic generation of financial supervision reports.



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